

Financial Management and Growth of Selected Business Enterprises in Makindye Division, Kampala District, Uganda

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Abstract - The study intended to establish the relationship between financial management and growth of selected business enterprises in Makindye Division, Kampala District. It was guided by four objectives which included determining; the demographic characteristics of respondents, the level of financial management, the level of growth of selected business and the significant relationship in level of financial management and growth of a business enterprise in Makindye Division. The Researcher made questionnaires used to collect data from 278 business owners selected purposively. A descriptive correlational, cross-sectional and ex-post-facto design were used. Data analysis was done using frequencies, percentages, means, and Pearson linear correlation coefficient (PLCC). The findings indicated that most respondents were male 146 (52.5%), followed by female who composed of 132 (47.5%). The researcher recommended, that care should be taken for investment, finance, dividend, liquidity, and working capital in an enterprise is to cope-up with growth. The researcher concludes that the levels of Financial Management and growth of business enterprise were both generally satisfactory among the enterprises. Once the above aspects are attended to, Financial Management is very useful vice to growth of selected business enterprises.

Keywords: financial management, growth and business enterprises.

I. INTRODUCTION

No matter how much try seek a standardized solution for running a successful business, it is a known fact that every businessperson runs his/her business based on their individual perspectives and principles, which need not always be similar (Gamba *et al.*, 2008). Every business has its own set of guidelines and processes designed for its efficient functioning and so, the focus, everywhere, is to take maximum benefit, in the form of output, from the limited inputs. Financial management is needed in every type of organisation, be it public or private sector. Equally, its importance exists in both profits oriented and non-profit organisations (Gamba *et al.*, 2008). In fact, need of financial management is more in loss-

making organisations to turn them to profitable enterprises (Gamba *et al.*, 2008). Study reveals many organisations have sustained losses, due to absence of professional financial management. Financial management has undergone significant changes, over the years in its scope and coverage (Barclay *et al.*, 2001).

Business enterprises should seek a balance between the pursuit of their mission and the effective management of all their resources (Gamba *et al.*, 2008). This balance is reflected in the dual roles of the head of the finance departments (Gamba *et al.*, 2008). Business enterprises are independent bodies, attracting funds from a variety of public and private sources, as they grow in size and range, placing ever increasing pressure on resources, there is a greater need for effective financial management (Kurtz *et al.*, 2010).

There is currently a great deal of good practice in existence in financial management and it is believed that wide dissemination of this would be beneficial (Kakuru, 2000). These address the concerns of government funding bodies that institutions which have recently experienced financial difficulties have lacked a number of key features which would be expected in a well managed business (International Accounting Standards, 2007).

All Business enterprises love growth which is a primary goal of a business, just as it is essential to kids and young plants, not all growth is desired, however, and it certainly comes with its own disruptions (Kurtz *et al.*, 2010). In an orderly world, growth comes with measured expansion that gently fuels prosperity and stability. Successful start-up and the growth of their firms is what most owners are after (David, 2010). The belief is that growth, not only validates a business, but in most cases it leads to greater financial wealth for owners and employees (Kurtz *et al.*, 2010). But this belief can be misleading (Gustavo *et al.*, 2002). Many experts warn, along with the extra ego boost and the potential profit, business expansion brings a whole new variety of issues to the table, issues that have the potential to make business expansion seem less like the fairytale (Gamba *et al.*, 2008). What we often ignore when pursuing the constant goal of business expansion is just how much a company changes as a

result and by this, experts do not just mean financially, but managerially and legally too (Kakuru, 2000).

Business owners should carefully consider each growth opportunity before moving forward with financing options. Although many small businesses quickly accept any opportunity that comes their way, failing to analyze growth opportunities may overextend the business’ resources (David, 2010). Selecting poor growth opportunities and financing them with traditional debt loans can also create significant cash flow strains. Although a business can discontinue poor growth opportunities, it may be unable to delay loan repayments (David, 2010).

II. MATERIALS AND METHODS

Location of the study area

The study was confined to selected business enterprises in Ggaba, kansanga parish, Lukuli parish and Ggaba Parish in Makindye Division, Kampala District-Uganda. The study focused on the level of financial management in terms of investment decision, finance decisions, liquidity decisions, dividend decisions, and working capital as well as level of growth of a business enterprise as regards to ownership, number of customer, Asset management, nature of business enterprises, Utilization of funds, shareholders value, and re-investment of selected business enterprise in Makindye division, Kampala district.

Sketch Map of the Study Area



Figure 1: Map of Uganda showing the location of Makindye Division

Sampling

Choice of respondents was based on two techniques: stratified sampling and simple random sampling. Stratified sampling ensured that all categories of financial management were represented; while simple random sampling gave each worker a chance of representation. Care was taken to ensure that all work shifts; the day, evening and night were represented in the study. Enterprises were chosen using the simple random sampling technique to ensure that each unit in the entire population under study is represented.

Determination of sample size of respondents

The sample size for this study the researcher used the Slovene’s formula to determine the minimum sample size of 278 respondents, as indicated below:

$$n = N / 1+N (e^2)$$

Where: **n** = the required sample size

N = Known population size

e² = Margin of error at 0.05 level of significance.

$$= 1000/1+1000(0.05^2)$$

$$= 1000/3.597$$

= **278** so a total of 278 respondents were used for the research

Table 1: Sample size distribution

Areas of Business Enterprises	Sample size	Percentage of total
Nsambya Parish	89	31.80%
Ggaba Parish	78	27.90%
Konge-Lukuri Parish	81	28.90%
Kansanga parish	30	10.70%
Total	278	100.0%

Source: Primary Data (2012)

III. DATA ANALYSIS

Determining Importance Value Indices (IVIs)

Amin (2005) reports that unprocessed data collected from the field is difficult to interpret. Thus it ought to be cleaned, coded, computer fed and analysed by all means. The researcher analysed data using both quantitative and qualitative methods.

Qualitative data analysis

Qualitative data are verbal or other symbolic materials, it is the detailed descriptions of observed behaviours, people, situation and events, (Koul, 2001). That is, non-numerical data analysis or explanation based on the attributes or source of data. According to Neuman (2003), qualitative data are in the form of text, written words, phrases, or symbols describing or representing people, actions, and events in social life. Mugenda and Mugenda (1999), states that in qualitative studies, researchers obtain detailed information about the phenomenon being studied, and try to establish patterns, trends and relationships from the information gathered. The data collected was organized in categories based on themes, concepts or similar features after which it was analysed using classification. In the presentation of the data, responses from interviews and questionnaire were transcribed and consolidated, compared and conclusions drawn based on the gathered information in accordance with the objectives of the study.

Quantitative data analysis

This involves the analysis of numerical data. The researcher used descriptive statistics to describe the basic features of data in the study, thereafter the researcher checked, edited and coded the collected data without changing the meaning and then fed it into the computer. This was followed by data processing and analysis by conducting statistical analysis using the computer package called statistical package for social scientists (SPSS) and presented it in form of tables. According to Neuman (2003), the charts and tables allow you to see the evidence collected by the researcher and learn for yourself what is in it. The researcher used spearman rank

correlation to establish the strength of the relationship between the variables. Correlation is concerned with measuring whether two variables are associated with each other.

Measurement of variables

The researcher used the likert scale to measure the level of financial management in terms of investment decision, finance decisions, liquidity decisions, dividend decisions, and working capital as well as level of growth of a business enterprise as regards to ownership, number of customer, Asset management, nature of business enterprises, Utilization of funds, shareholders value, and re-investment of selected business enterprise in Makindye division on five points; strongly agree, agree, not sure, strongly disagree, and disagree. According to Cooper (2012), a likert scale is the most frequently used variation of the summated rating scale. Summated rating scales consist of statements that express either a favourable or unfavourable attitude towards the object of interest. The respondent was asked his/her opinion with each statement. Each response was given a numerical score to reflect its degree of attitude favorableness, and the scores were totaled to measure the respondent's at.

IV. RESULTS

The purpose of the study was to; (a) to test hypotheses of no significant relationship in financial management and growth of the selected business enterprise; validate the graham's theory and practice of corporate finance, and Whonder john's agency theory. And identify the existing gaps, in literature.

Results indicate that, male respondents comprised of 146 (52.5%), followed by female 132 (47.5%).this implies that majority of the business in Makindye division are operated by male compared to their female counterpart.

Pertaining age, 122 (43.9%) respondents were in the age bracket of 40-59, 115 (41.4%) were in the age bracket of 20-99 of age and 41(14.7 were at the age of 60 and above. It can therefore be deduced that though all age categories were represented, the middle age respondents dominated in this study. This is true because organizations prefer employing experienced and vibrant workforce who has the potential to work towards growth and development among the enterprises.

Regarding the educational qualification of respondents, 136 (48.9%) had masters degree, 67(24.1%) were Bachelor's Holder, followed by those with diploma who composed of 52(18%), them by 14(5.0%) with Ph.D and 9(3.2%) who had certificates, therefore respondents with Masters dominated in the sample.

Results indicate that six items on liquidity decisions were measured and it is revealed that liquidity decisions attached was satisfactory, showed an average mean of 3.12. Also the means ranged from (3.32-2.71), this means that liquidity decisions is often considered vital in these business enterprises in Makindye division for growth and survival in order to increase on the chances of competition.

On the aspect of Working Capital, four items were measured as indicated in above and showed on average satisfactory mean of 3.17. Also the means ranged from (3.47-3.02), this means that a financial manager must be able to decide whether an investment is worth undertaking and be able to choose intelligently between two or more alternatives. To do this, a sound procedure to evaluate, compare, and select projects is needed and it's worthiness to be undertaken in order to get away with operational risks among others.

On the overall, it is accredited that financial management these selected business enterprises are generally satisfactory with 3.16 as the overall mean index (Grand average mean) for the five aspects, which confirmed that the level of Financial management as shown in the results above among the selected Business enterprises in Makindye Division is satisfactory in line with stakeholders who agreed with it. Thus business enterprises should seek a balance between the pursuit of their mission and the effective management of all their resources. This balance is reflected in the dual roles of the head of the finance departments. Business enterprises are independent bodies, attracting funds from a variety of public and private sources. As they have grown in size and range, placing ever increasing pressure on resources, there is a greater need for effective financial management.

According to results indicate that five items on Revenue growth Components were measured and showed on average satisfactory with a mean of 3.10. Also the means ranged from (3.22-2.99), this means that care must be taken for revenue growth as an important aspect to consider in an enterprise if it's to prosper, survive and growth respectively, it is one of the basis for laying financial forecast strategy.

On another aspect that is Number of customer; five items were measured and showed on average satisfactory with a mean of 3.16. Also the means ranged from (3.59-2.85), this means that Number of customer is considered very important, it is one of the aspects that a growing business enterprises realizes its contribution to the community and the market at large. It signifies the value of its produces and scans the environment to work towards the demand of the community and the general public at large.

On another aspect that is Re-investment; five items were measured and showed on average satisfactory with a mean of

3.12. Also the means ranged from (3.24-2.93), this means that Re-investment is considered very important, it is one of the aspects that a growing business enterprises, that if an enterprise if to grow there is need to re-investment it retained earnings, failure to re-invest implies that in case of crisis the business may not survive the economics winds and thus fail to save, you cannot re-invest and if you cannot re-invest you cannot grow. It signifies that failed accountability leads to breakdown of the future expansion.

The results in measure the aspect of Utilization of funds; five items were measured and showed on average satisfactory with a mean of 3.17. Also the means ranged from (3.35-2.99), this means that Utilization of funds is very important aspect if a business enterprise is to grow, using funds to non-productive activities means that there will be no returns on the investment, and also if the borrowed funds are not carefully monitored this implies that when it comes to payback the enterprise may not be in position to cope-up with the demands of the banks or any other borrower. Additionally, an enterprise may fail to meet the operational costs and cease to operate.

Concerning shareholder's value, five items were measured and showed on average satisfactory with a mean of 3.08. Also the means ranged from (3.34-2.95), on aspect of;- your business is protected against creditors with a mean of 3.34, You have set of balanced books reflecting any business dimension with a mean of 3.16, you always realize the set goals and objectives with a mean of 2.97, Your corporate structure offers a good way of raising capital while limiting your personal liability with a mean of 2.96, you retain all the profits for expansion with a mean of 2.95. This means that Shareholder's Value is very important aspect if a business enterprise in Makindye division among the selected entities.

On another aspect that is employee skills; five items were measured and showed on average satisfactory with a mean of 3.14. Also the means ranged from (3.36-2.87), on aspect of;- you handle your customer professionally with a mean of 3.36, your skills enhance your business portfolio before committing funds with a mean of 3.29, you have interpersonal skill to cater for customer retention with a mean of 3.13, you know the value of good advice with a mean of 3.06, and you have adequate technical skills with a mean of 2.87. This means that Employee skills are very important aspect if a business enterprise is to growth, that these skills helps to increase productivity, accuracy of financial reports, reduce of organisation role conflicts, enhance decision making, stimulate the objective achievement among others in an enterprise.

On the overall, it is deduced that Growth of a Business Enterprise in Makindye division is generally satisfactory with

a mean of 3.14 as the overall mean index (Grand average mean) for the seven aspects, which confirmed that the extent of that Growth of a Business Enterprise in Makindye division is satisfactory depending on adherence to revenue growth, number of customer, re-investment, utilization of funds, asset, shareholder's value, and employee skills.

Thus the findings reveal that, for businesses as well as people, finances affect everything. People make decisions about what they can and can't do based on their incomes and outflows. Businesses do this even more so, as their livelihood is tied to turning a profit.

Summary of Findings on financial Management and growth of business enterprise

The findings indicated that most respondents were male 146(52.5%), followed by female who composed of 132 (47.5%). Results show that financial management was significantly correlated with revenue growth (Sig=0.001, at P=0.005), Number of customers (Sig=0.001, at P=0.005), asset (Sig=0.001, at P=0.005), shareholder's value (Sig=0.001, at P=0.005), and employee skills (Sig=0.002, at P=0.005).

Results show that growth of business enterprise was significantly correlated with investment decisions (Sig=0.001, at P=0.005), finance decision (Sig=0.001, at P=0.005), dividend decision (Sig=0.001, at P=0.005), and working capital decision (Sig=0.001, at P=0.005).

Thus the results in the study indicated that there is a significant relationship between the level of financial management and growth of selected business enterprise in Makindye division since the significance value was less or equal to than 0.05 hence we reject when the significance value is less or equal to 0.05 and accept when the sig. value is greater than or equal to 0.05.

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On the overall, it is deduced that financial management these selected business enterprises are generally satisfactory with 3.16 as the overall mean index (Grand average mean) for the five aspects, which confirmed that the level of financial management as shown in among the selected Business enterprises in Makindye Division is satisfactory in line with stakeholders who agreed with it. Thus business enterprises

should seek a balance between the pursuit of their mission and the effective management of all their resources. This balance is reflected in the dual roles of the head of the finance departments. Business enterprises are independent bodies, attracting funds from a variety of public and private sources. As they have grown in size and range, placing ever increasing pressure on resources, there is a greater need for effective financial management.

V. DISCUSSIONS

The discussions of the findings are presented according to the objectives of the study and the various items which were used to determine the financial management and growth of selected business enterprises in Makindye Division and they run as follows;

For businesses as well as people, finances affect everything. People make decisions about what they can and can't do based on their incomes and outflows. Businesses do this even more so, as their livelihood is tied to turning a profit (Gatchev *et al.*, 2010). The impact of finances on how businesses make decisions fills books and is an area of study for business schools (Lemmon *et al.*, 2008).

Labor is one of the most important costs for a business to be able to securely sustain (Gamba *et al.*, 2008). No business wants to find itself unable to make payroll. Just as important, companies must look for return on investment when hiring, as each employee represents a significant dedicated cost (Gatchev *et al.*, 2010). In many cases, hires and additions can expand a business' capabilities; often, the cost of an employee is an investment in growth and revenue increases, when finances are severely strapped, labor is an area in which many companies trim. When finances allow, however, companies may take personnel-related risks to achieve growth (Lemmon *et al.*, 2008).

In the Uganda's' marketplace, businesses constantly strive to grow to increase revenues, margins and profits. The formulas for exactly what a company's financial position needs to be in order to grow vary widely by industry, size of business, market and even the taste for risk of the management and ownership (Lemmon *et al.*, 2008). As a rule, however, a company needs a certain amount of available capital in order to enter new markets, lines of business and even to expand vertically in its line of business.

Various studies (Kibera and Kibera, 1997; Thembe *et al.*, 1997; Alila and McCormick, 1994) have enumerated the factors that are generally agreed on as the constraints to the growth of small business especially in the African setting (Gamba *et al.*, 2008). These include lack of market opportunity, access to finance, enabling environment, market

information, and managerial skills. We have submitted that these are important, but probably not the only ones. We think entrepreneurship and culture are more important.

Most studies (Ngobo, 1995; Kibera and Kiberam, 1997; Chijoriga and Cassiman, 1997), point to finance as one of the key constraints to small enterprise growth. This is worsened by the absence of financial markets in the developing countries (Gamba *et al.*, 2008). Small enterprise owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges (Gamba *et al.*, 2008). This means that they cannot access finance to enable them to grow (Petersen *et al.*, 2009). In a study by Ngobo (1995), he makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, extra bank charges, inability to evaluate financial proposals and lack of financial management skills as hindrances to small enterprise growth (Petersen *et al.*, 2009).

In 1996, Izedonmi and Eriki studied the payout ratio, dividend per share and earnings per share of 13 Nigerian quoted companies for 6 years (1984-1989). They concluded that "Nigerian quoted companies are interested in maintaining the level of their dividend and they hardly reduce dividend even in the face of declining earnings per share". Nigerian companies Chief Executive Officers (CEO) pay more attention to liquidity and legal provisions in their dividend decisions. They observed that the companies do not maintain a target payment ratio (Gatchev *et al.*, 2010). Nevertheless, they also discovered that in an attempt to maintain stability in the amount of dividend paid, where a company experienced high earnings, it kept dividend paid constant or increased slightly (Gamba *et al.*, 2008). They observed variations in the pay-out ratio across sample and also even within a particular company from year to year and they agree with Lintner's (1956) that dividend payment may be influenced by long-term earnings because the pattern of earnings of the company will tend to influence the board of directors' decision of dividend matters.

Liquidity and Profitability

In the course of performance of duties, a finance manager has to take various types of financial decision investment decision, finance decision, liquidity decision and dividend decision, as detailed above, from time to time (David 2010). In every area of financial management, the finance manager is always faced with the dilemma of liquidity and profitability (Lemmon *et al.*, 2008). He has to strike a balance between the two (Gamba *et al.*, 2008). Liquidity means that the firm has: (a) Adequate cash to pay bills as and when they fall due, and (b) Sufficient cash reserves to meet emergencies and unforeseen demands, at all time (Dittmar *et al.*, 2008).

Profitability goal, on the other hand, requires that the funds of the firm be so utilized as to yield the highest return. Liquidity and profitability are conflicting decision. More liquidity results in less profitability and vice versa (Lemmon *et al.*, 2008). This conflict finance manager has to face as all the financial decisions involve both liquidity and profitability. Example: business may borrow more, beyond the risk-free limit, to take the advantage of cheap interest rate (Gamba *et al.*, 2008). This decision increases the liquidity to meet the requirements of firm (Gatchev *et al.*, 2010). Firm has to pay committed fixed rate of interest, at fixed time, irrespective of the return the liquidity (funds) gives (Barclay *et al.*, 2001). Profitability suffers, in this process of decision, if the expected return does not materialize (Lemmon *et al.*, 2008). Risk is defined as the variability of the expected return from the investment. Return is measured as a gain or profit expected to be made, over a period, at the time of making the investment (Baker *et al.*, 2002).

Financial decision involves liquidity and profitability implications, which carries risk as well as return. However, the quantum of risk differs from one decision to another (Gatchev *et al.*, 2010). Equally, the return from all the decisions is not uniform and also varies, even from time to time. Relationship between Liquidity & Profitability and Risk & Return: example: If higher inventories are built, in anticipation of an increase in price, more funds are locked in inventories (David 2010). So, organisation may experience problems in making other payments, in time (Gamba *et al.*, 2008). If the expected price increase materialises, firm enjoys a boost in profits due to the windfall return the decision yields (Barclay *et al.*, 2001).

While many countries have acknowledged that small enterprises have an important role in their economies, not much effort has been done to facilitate their growth. They have to compete for finance, markets, personnel, and utilities like any other business unit (Mutazindwa, 1997), in a few countries especially India, there has been affirmative action to promote small enterprises over a long period. In Uganda, the Government has only paid a lip service (Lemmon *et al.*, 2008). In fact, the Uganda Investment Authority (UIA) which was set up to promote investments in Uganda was not attractive for the small entrepreneur (Lemmon *et al.*, 2008). The UIA would only support proposals from companies with more than US\$50,000 to invest; the development banks in the country did not have programmes for small enterprises.

Many studies have pointed to managerial skills as the most important constraint faced by small business, at the formation stage a small owner is able to run a business but as it grows and ages, managerial demands arise (David 2010). These are in the form of operational managerial requirements

like production, sales, and finance, and most important is the ability to deal with them (Gatchev *et al.*, 2010). Some owners have a hunch over these but in the long run they need to employ people. Some people believe (Harper, 1994) that entrepreneurial skills are part of managerial skills (Gatchev *et al.*, 2010).

In present situation there is rapid change in the world as this changes technological and economical, it is difficult to keeping up with innovations and new business strategies is crucial for long-term success (Lemmon *et al.*, 2008). Most small business owners don't invest much time or money in developing their business and marketing knowledge (Lemmon *et al.*, 2008). The amount of time and money you invest in your marketing education directly relates to your business success (Gatchev *et al.*, 2010). To running a business success full need a strategy and planning which help to start and establish the business. (Gamba *et al.*, 2008).

VI. CONCLUSION

With reference to the purpose of the study the researcher concludes that the levels of financial management and growth of selected business enterprise were both generally satisfactory among the selected business enterprises in Makindye Division, Kampala District-Uganda.

As for the null hypothesis, results indicated a positive significant relationship between financial management and growth of selected business enterprise leading to a conclusion that the more financial management is given attention in an enterprise, the more, the growth of selected business enterprise in the division.

The study was based on agency theory by whonder john (2009). It deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders.

Although people have measured the effect of financial management and growth of selected business enterprise, to the best of my knowledge no one has correlated in depth the level of financial management and levels of growth of selected business enterprise. It is true that other scholars may have taken these measures but none of them has, jointly correlated financial management with growth of selected business enterprise in Makindye division. It is therefore, the researcher's claim that this is an original contribution not only in terms of contextual but also in temporal and content (variables correlated).

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